Canadian Hidrogas
RESOURCES LTD.

1971
Annual Report

Auditors' Report

To the Shareholders of

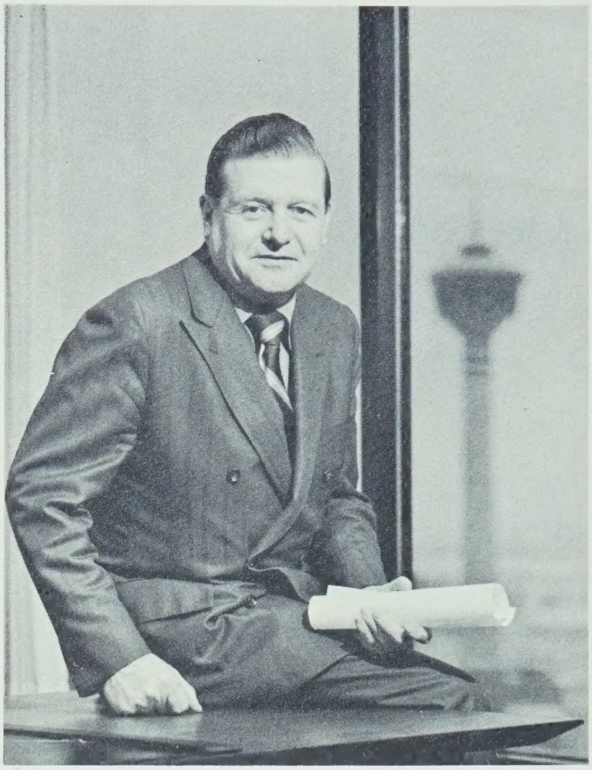
CANADIAN HIDROGAS RESOURCES LTD.:

We have examined the consolidated balance sheet of Canadian Hidrogas Resources Ltd. as at August 31, 1971 and the consolidated statements of income and deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at August 31, 1971 and the results of their operations and source and application of their funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

December 1, 1971

DELOITTE, HASKINS & SELLS
Chartered Accountants



President's Message

In the past year, your company has shown a growth pattern exceeding all expectations envisioned at the time of our last annual report. Last year we reported that the consolidated operating income was twice the income of the previous year. This year we can report that the consolidated income is over three times the amount it was last year.

The greatest growth factor has taken place in the continent wide wholesale marketing of propanes and butanes. The increased volume of this product has necessitated an increase in our tank car fleet from ninety to one hundred and sixty cars over the past year, a growth of 78%.

Your company continues to be active in the exploration and production of oil, gas, and minerals. During the year a one hundred percent interest was acquired in excess of ten thousand lease acres in the state of Montana, adjacent to three gas discovery wells. Your company now holds varying interests in prospective gas acreage in the state of Montana and Alberta, totaling 96,000 gross acres. Drilling programs are planned and when present applications before regulatory bodies are resolved, we shall contract for the proven gas reserves.

During the past summer, your company was fortunate in being able to obtain Crown leases on twelve hundred and eighty acres of high grade coal properties in the foothills area of Alberta. Samples of the coal indicate a good coking grade, and the property will lend itself to strip mining operations. It is the company's plan to retain this property and prove up the coal reserves.

In our last report, we mentioned the continued investigation of underground propane and butane storage at Regina. The underground caverns are presently being developed, and, upon completion, your company will have available to it a total of two million barrels of storage capacity. This volume represents 66% of our annual marketings during the past year. An inventory of this magnitude will contribute substantially to market growth.

While your company is completely dedicated to the resource development and marketing industries, we are still mindful that our greatest asset is the human resources pool of talent that manages and operates your company. We have confidence and ample evidence to support our belief that our present enlarged staff is at the optimum content in discipline and quantity to support our projected growth. I would like to extend my appreciation to the staff, the management, and the shareholders for making the past year a success and for their continued support in the future.

Evan Bodrug

PRESIDENT

Directors

Evan W. G. Bodrug — Calgary
Benjamin J. McConnell — Vancouver
Jack Allan Gilbert, Q.C. — Toronto
Henry W. Klassen — Calgary
Arthur F. Coady — Calgary

Officers

Evan W. G. Bodrug — President
James L. McCarthy — Vice-President
Arthur L. Coady — Secretary
M. Laurence Steer — Treasurer

TRANSFER AGENT:	National Trust Company Limited
BANK:	Canadian Imperial Bank of Commerce
AUDITORS:	Deloitte, Haskins & Sells — Calgary
SHARES LISTED:	Vancouver Stock Exchange Calgary Stock Exchange
SHARE SYMBOL:	CHS

CANADIAN HIDROGAS RESOURCES LTD.
(Under The Companies Act, British Columbia)

Consolidated balance sheet as at August 31, 1971

(with 1970 figures for comparison)

ASSETS

	1971	1970
CURRENT ASSETS:		
Cash	$ 649	$ 15
Accounts receivable — trade	403,326	609,730
— on sale of land, rights and permits (Note 3)	125,000	—
Inventory — at the lower of average cost or net realizable value	849,512	524,535
Prepaid expenses and deposits	5,680	8,279
Total current assets	1,384,167	1,142,559
RECEIVABLE ON SALE OF LAND, RIGHTS AND PERMITS (Note 3)	100,000	—
INVESTMENT IN AND ADVANCES TO AFFILIATED AND UNCONSOLIDTED SUBSIDIARY COMPANIES (Notes 2 and 4)	4,886	4,677
GAS, OIL AND MINERAL INTERESTS — net (Note 5)	93,085	39,706
EQUIPMENT — net (Note 6)	195,993	196,749
OTHER — at cost:		
Deposits on rental of tank cars	25,061	5,255
Incorporation costs	—	1,781
Excess of cost of shares acquired over net assets of subsidiary at date of acquisition	252,771	252,771
Total other assets	277,832	259,807
TOTAL	$2,055,963	$1,643,498

LIABILITIES AND SHAREHOLDERS' EQUITY

	1971	1970
CURRENT LIABILITIES:		
Bank indebtedness (Note 7)	$ 331,674	$ 80,000
Accounts payable and accrued liabilities	1,002,251	967,943
Corporation income taxes	5,184	—
Current portion of long-term debt	18,249	16,519
Deposits on sales	—	103,603
Total current liabilities	1,357,358	1,168,065
LONG-TERM DEBT:		
12% Note payable maturing 1975, repayable at $2,800 per month including interest, less amount included in current liabilities	143,473	161,722
SHAREHOLDERS' EQUITY:		
Capital stock:		
Authorized:		
5,000,000 common shares with a par value of $1 each		
Issued and fully paid (Notes 8 and 9):		
2,991,002 shares	1,164,847	1,164,847
Deficit (Note 9)	(609,715)	(851,136)
Net shareholders' equity	555,132	313,711
TOTAL	$2,055,963	$1,643,498

Approved by the Board:

EVAN W. G. BODRUG — Director

ARTHUR F. COADY A F Coady Director

The accompanying notes are an integral part of the financial statements.

CANADIAN HIDROGAS RESOURCES LTD.

Consolidated statement of income and deficit

FOR THE YEAR ENDED AUGUST 31, 1971
(with 1970 figures for comparison) (Note 2)

	1971	1970
SALES AND OPERATING REVENUE	$6,064,844	$2,963,142 +
Freight	2,991,906	1,296,659
Net sales and operating revenue	3,072,938	1,666,483
COST OF GOODS SOLD	2,770,292	1,496,100
GROSS PROFIT	302,646	170,383
EXPENSES:		
Operating, administrative and general	199,130	92,125
Exploration and development costs on abandoned properties	694	6,573
Incorporation expenses written off	1,781	—
Interest	27,177	8,552
Depletion of producing properties — prior year	—	5,744
Loss on exchange revaluation	—	7,140
Oil royalty interests abandoned	—	10,000
Total expenses	228,782	130,134
INCOME FOR THE YEAR BEFORE THE UNDERNOTED ITEMS	73,864	40,249
PROVISION FOR INCOME TAXES	5,184	—
INCOME FOR THE YEAR BEFORE EXTRAORDINARY ITEMS	68,680	40,249
EXTRAORDINARY ITEMS:		
Gain on sale of land, rights and permits (Note 3)	172,741	—
Mineral claims abandoned (Note 8)	—	(748,064)
Deferred expenses written off	—	(65,017)
Engineering study costs written off	—	(56,273)
Total extraordinary items	172,741	(869,354)
NET INCOME (LOSS) FOR THE YEAR	241,421	(829,105) +
DEFICIT AT BEGINNING OF THE YEAR	851,136	22,031
DEFICIT AT END OF THE YEAR (Note 9)	$ 609,715	$ 851,136

The accompanying notes are an integral part of the financial statements.

CANADIAN HIDROGAS RESOURCES LTD.

Consolidated statement of source and application of funds

FOR THE YEAR ENDED AUGUST 31, 1971
(with 1970 figures for comparison) (Note 2)

	1971	1970
FUNDS PROVIDED:		
Net income (loss) for the year	$ 241,421	$ (829,105)
Depreciation and depletion	4,114	18,590
Mineral claims abandoned	—	748,064
Deferred expenses written off	—	65,017
Engineering study costs written off	—	51,789
Gain on disposal of equipment	—	(5,000)
Gain on sale of land, rights and permits	(172,741)	—
Incorporation expenses written off	1,781	—
Total funds provided from operations	74,575	49,355
Note payable	—	161,722
Sale of equipment	—	28,525
Reduction in advances to affiliated and subsidiary companies	—	41,828
Proceeds from sale of land, rights and permits, net of long-term portion of $100,000	125,000	—
Total funds provided	199,575	281,430
FUNDS APPLIED:		
Additions to equipment	2,896	227,501
Additions to gas, oil and mineral interests	106,100	28,431
Paid or payable on long-term debt	18,249	—
Advances to affiliated and subsidiary companies	209	—
Deposit on tank car rentals	19,806	—
Total funds applied	147,260	255,932
INCREASE IN WORKING CAPITAL FOR THE YEAR	52,315	25,498
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF THE YEAR	(25,506)	(51,004)
WORKING CAPITAL (DEFICIENCY) AT END OF THE YEAR	$ 26,809	$ (25,506)

The accompanying notes are an integral part of the financial statements.

Notes to the consolidated financial statements

AUGUST 31, 1971

1. COMPARATIVE FIGURES:

Certain 1970 figures have been reclassified to facilitate comparison with the current year.

2. PRINCIPLES OF CONSOLIDATION:

These financial statements include the accounts of the parent company and those of its wholly-owned subsidiary, Hidrogas Limited, for the year ended August 31, 1971 (1970 — subsidiary for nine months). The accounts of the wholly-owned inactive subsidiary, Hidrogas Inc., are not included in the accompanying financial statements. The investment in this subsidiary is carried at cost and there has been no provision made in the accounts for the subsidiary's accumulated deficit of $1,454 at April 30, 1971, which amount together with its assets and liabilities is not considered material.

3. RECEIVABLE ON SALE OF LAND, RIGHTS AND PERMITS:

During the year, the company sold certain land, rights and permits in the Province of Saskatchewan for $225,000. Of the total sales proceeds, $30,000 was received subsequent to August 31, 1971, $95,000 is due within one year, and the balance of $100,000 is due on completion of construction of certain facilities by the purchaser.

4. INVESTMENT IN AND ADVANCES TO AFFILIATED AND UNCONSOLIDATED SUBSIDIARY COMPANIES:

	1971	1970
Subsidiary		
Hidrogas Inc. — shares — at cost	$ 100	$ 100
— advances	1,381	989
	1,481	1,089
Affiliated		
Pet-Chem Manufacturing Ltd. — shares — at cost	50	50
— advances	355	275
Executive Business Services Ltd. — advances	3,000	3,263
	3,405	3,588
	$4,886	$4,677

5. GAS, OIL AND MINERAL INTERESTS:

Gas, oil and mineral interests are shown at cost except for mineral claims (Note 8). Details of gas, oil and mineral interests and accumulated depreciation and depletion are as follows:

	1971	1970
Producing properties		
Acquisition and completion costs	$36,523	$18,242
Lease and well equipment	9,452	4,728
	45,975	22,970
Less accumulated depreciation and depletion	10,253	9,792
	35,722	13,178
Non-producing properties and mineral interests		
Acquisition and completion costs	39,793	10,517
Lease and well equipment	260	—
Royalty interests	16,010	16,010
Mineral claims (Note 8)	—	1
Mineral lease costs	1,300	—
	57,363	26,528
	$93,085	$39,706

Depreciation and depletion of acquisition and completion costs and lease and well equipment of $461 (1970 — $4,048) is computed by the unit of production method based upon the total estimated recoverable reserves.

6. EQUIPMENT:

Details of equipment and related accumulated depreciation at August 31, 1971 are as follows:

	1971	1970
Cost — tank cars	$204,694	$203,392
— furniture and fixtures	5,150	3,556
	209,844	206,948
Accumulated depreciation	13,851	10,199
	$195,993	$196,749

It is the company's practice to provide for depreciation of tank cars and furniture and fixtures under the declining-balance method at the rate of 4% and 20% respectively. The total amount so provided for the year was $3,653 (1970 — $8,798).

During the year the company determined that the estimated useful life of tank cars was longer than originally estimated; accordingly, in 1971 the depreciation rate was reduced from the 10% rate used in 1970 to 4%. The 1971 provision for depreciation has been reduced by $5,085 to give retroactive effect to this reduction in rate.

7. BANK INDEBTEDNESS:

Bank loans are secured by an assignment of accounts receivable and certain inventory storage receipts and shareholder guarantees.

8. MINERAL CLAIMS:

In 1965, the company issued 750,000 common shares in exchange for certain mineral claims. The shares so issued were held in escrow under the control of the Superintendent of Brokers for the Province of British Columbia. Under the terms of the exchange agreement, the escrowed shares were to be surrendered at the sole discretion of the Superintendent in the event of the company losing or not obtaining a good and marketable title to, or abandoning or discontinuing development of the properties. At August 31, 1971, 26,000 shares had been surrendered to the company, 72,400 shares had been released to the vendors of the mineral claims; and the balance of 651,600 shares were held under the escrow agreement.

On August 5, 1970 the Directors passed a resolution directing the company to give notice to the Superintendent that it was abandoning the mineral claims and to request that the Superintendent order the release for surrender by way of gift to the company for cancellation the number of shares as he deems equitable. As a result of the resolution to abandon these claims, the company wrote the investment therein down to the nominal value of $1.

On September 20, 1971, the Superintendent deemed it fair and equitable that the 651,600 shares be surrendered to the company by way of gift for cancellation (Note 9). As a result, the nominal value of $1 has been written off to 1971 operations.

9. CAPITAL STOCK:

(a) Details of issued capital stock are as follows:

	At par of $1	Discount	
For cash	$ 567,002	$ 423,655	$ 143,347
For mineral claims	750,000	—	750,000
For shares of subsidiary	1,700,000	1,402,500	297,500
	3,017,002	1,826,155	1,190,847
Less shares surrendered and cancelled	26,000	—	26,000
	$2,991,002	$1,826,155	$1,164,847

Of the 3,017,002 shares issued, 651,600 shares relating to mineral claims are held in escrow under the control of the Superintendent of Brokers for the Province of British Columbia (Note 8), and 1,190,000 shares relating to the acquisition of Hidrogas Limited are held in escrow under the control of the Alberta Securities Commission and the Calgary Stock Exchange.

(b) As discussed in Note 8, the aforementioned 651,600 shares of a par value of $651,600 were surrendered on September 20, 1971 to the company by way of gift for cancellation. Had this surrender occured prior to August 31, 1971 the effect would have been to reduce the outstanding capital stock of the company to 2,339,408 shares issued for $513,247.

The deficit of $609,715 at August 31, 1971, after giving retroactive effect to this credit of $651,600 would have been retained earnings of $41,885.

(c) The Company has reserved 100,000 shares for issuance to officers and employees under a stock option plan. Options in respect of 65,000 shares have been granted at a price of 75¢ per share to expire August, 1977. No options have been exercised to date.

10. INCOME PER SHARE:

Income per share based on the average number of shares outstanding during the year is as follows:

	1971	1970
Income per share before extraordinary items	2.3¢	1.4¢
Income (loss) per share — extraordinary items	5.8¢	(29.1)¢
Income (loss) per share after extraordinary items	8.1¢	(27.7)¢

The income per share based on the average number of shares outstanding during the years 1971 and 1970 after giving retroactive effect to the return of 651,600 shares to the company by way of gift for cancellation (Notes 8 and 9) would have been:

	1971	1970
Income per share before extraordinary items	2.9¢	1.7¢
Income (loss) per share — extraordinary items	7.4¢	(37.2)¢
Income (loss) per share after extraordinary items	10.3¢	(35.5)¢

Fully diluted income per share has not been shown as the inclusion of the stock option plan would result in an increase in such income per share.

11. REMUNERATION OF DIRECTORS:

Remuneration of Directors and senior officers of the company amounted to $30,000 for the year (1970 — $18,000) which amounts are included in operating, administrative and general expenses.

12. LEASE COMMITMENTS:

The company occupies leased premises in Calgary under a 5 year lease expiring October 1974 at a rental of approximately $8,700 per year.

13. INCOME TAX:

The Department of National Revenue is currently conducting a review of the companies' prior years' income tax returns. No reassessments have been raised; any income taxes arising from items being questioned would not be material.

14. GENERAL:

On January 29, 1971, the British Columbia Registrar of Companies authorized the conversion of the company to a limited company, and in this regard, the designation N.P.L. has been deleted from its name.